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UNCLAS SECTION 01 OF 05 HARARE 001002

SIPDIS

SENSITIVE
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STATE PASS TO USAID FOR L.DOBINS AND E.LOKEN
TREASURY FOR J. RALYEA AND T.RAND
COMMERCE FOR BECKY ERKUL
EEB/EX GAYLE GRAY
EEB/CBA DENNIS WINSTEAD

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [PGOV](#) [ZI](#)
SUBJECT: BFIF FUNDING ONCE AGAIN CATALYZES PRIVATE SECTOR
DISCUSSIONS ON TURNAROUND

REF: A. HARARE 0964

- [1](#)B. HARARE 0951
- [1](#)C. HARARE 0657
- [1](#)D. HARARE 0598
- [1](#)E. 2006 HARARE 01317

[1](#)1. (U) This is an action request. Please see paragraph 13.

Summary

[1](#)2. (SBU) On October 2, for the second consecutive year, the American Business Association of Zimbabwe (ABAZ), generously supported by the Business Facilitation and Incentive Fund (BFIF) and the private sector, held a high-profile day-long economic forum under the theme "Just Business" to identify and deliberate over solutions to Zimbabwe's economic problems. Presentations by speakers from the World Bank, academia, government and business focused on two subjects: other developing countries' experience in taming hyperinflation; and the importance of secure property rights in creating wealth and attracting investment. About 220 delegates attended the forum and accompanying mini-trade fair at which 26 companies found the courage, in an anti-business/anti-American climate, to exhibit under the banner of an American association. Due to unforeseen circumstances, the event made a small loss. Post is seeking early FY08 BFIF funding to close the gap and enable ABAZ to continue its outreach. Looking ahead, ABAZ intends to disseminate the proceedings to the media, take key messages directly to government officials and parliamentarians, and begin a series of workshops on the South African experience with black economic empowerment as an alternative to the

indigenization policy now under discussion. End Summary

BFIF Support Spurs Business Group to Action

13. (U) On October 2, the American Business Association of Zimbabwe, supported generously by the State Department's Business Facilitation and Incentive Fund (BFIF) and by 12 leading companies as primary sponsors, including Stanbic Bank, RioTinto and Murowa Diamonds, held a high-profile day-long economic forum under the theme "Just Business" at Harare's premier convention facility, the Celebration Center.

This was a sequel to last year's forum (Ref E) that opened up a private sector-led public discussion about the key economic policy reforms needed to right Zimbabwe's course. This year, in an especially daunting anti-business, anti-American climate (Ref C), the organizing committee drew on speakers from Zambia, the U.K. and the U.S. to engage in constructive discussion of the way forward for the Zimbabwean economy.

Macroeconomic Stabilization) Lessons From Around The World

14. (U) Opening the forum was Dr. Kapil Kapoor, the World Bank's country manager in Zambia and former deputy country manager in Zimbabwe. He reviewed Zimbabwe's deteriorating economic and social indicators and described the experiences of 24 countries with hyperinflation between 1980 and 2005. He pointed out that high inflation could last as long as 48 months (Zaire in 1991-1994), then described three key

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elements of successful economic stabilization: up-front large fiscal adjustment, including elimination of quasi-fiscal activities; monetary adjustment with a focus on price stability and the establishment of monetary credibility through central bank independence; and exchange rate adjustment, again, up-front and close to the prevailing parallel market rate. The measures should be accompanied by social safety nets for vulnerable people and policy reforms to remove microeconomic distortions (civil service reform, agricultural reform, etc.). Kapoor summarized that front-loaded programs were more successful in gaining credibility and taming inflationary expectations than a gradual approach; positive stabilization results could be achieved quickly; and about half of the cases examined had official external financing similar to that of Zimbabwe (4 percent of GDP) and no IMF program at the outset. In all cases, private capital flows tended to follow stabilization.

15. (U) Widely regarded as the most effective speaker of the day, elder statesman, Vice Chancellor of the University of Zambia, and former Governor of the Reserve Bank of Zambia in the 1990s, Dr. Jacob Mwanza recounted one failed Zambian policy after another during Zambia's 25-year long pursuit of a socialist development model. His recitation of past price and foreign exchange controls, empty foreign currency coffers, falling production, record-breaking sovereign debt and budget deficits in Zambia, eerily echoed the Zimbabwe situation today. The cornerstone of Zambia's reforms as it embraced a capitalist development model consisted of the privatization of state-owned entities, freeing up the prices of goods and services, repealing the Exchange Control Act, allowing the market to determine exchange rates, and civil service reform. Mwanza also described Zambia's successes in diversifying the economy beyond its core copper industry into agriculture and tourism, and the strong growth, foreign reserves, and trade balance that Zambia now enjoyed, along with low inflation.

16. (U) Professor Steve Hanke of Johns Hopkins University presented on "Overcoming Hyperinflation) Possible Solutions" in an audiovisual recording, as he was unable to

attend the forum in person. Having served as advisor to an impressive list of governments in Latin America, the Balkans and former Soviet Union, he drew upon his forthcoming book "Zimbabwe: Hyperinflation to Growth," and zeroed in on the pros, cons and mechanics of exchange rate stabilization using dollarization or currency boards.

Property Rights and Resuscitating the Ag and Mining Sectors

17. (SBU) Craig Richardson, Professor of Economics at Salem College in North Carolina, returned to the ABAZ forum this year to address "Property Rights and their Implications for Investment and Economic Growth." Once again, he showed striking visual evidence of the cost of destroying property rights in the agricultural sector. Using satellite photos of abutting commercial and communal properties, he demonstrated that those who owned their own land had greater incentives to maintain and enhance it. Using examples of strengthened property rights in Tanzania and Niger, Richardson argued that all citizens should hold secure property rights to prevent land degradation and gain collateral for land improvements. On the margins of the event, we arranged meetings for Prof Richardson with leaders of the Confederation of Zimbabwe Industries (CZI), the Commercial Farmers' Union (CFU), the

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Horticultural Promotion Council, and the Compensation Coalition. In the expectation that Prof. Richardson would continue to publish articles on property rights in Zimbabwe, as he did after last year's visit, we also arranged visits for him to commercial, communal and resettled farms over the course of his six-day stay.

18. (U) Closing the forum was Dr. Andrew Mackenzie, chief executive of diamonds and minerals at Rio Tinto, which owns 77.8 percent of Zimbabwe's Murowa diamond mine. He recalled Zimbabwe's bygone strength as an African mining country, mining legislation that he said was once the best in Africa, and the strong infrastructure that supported the industry in Zimbabwe. Mackenzie called attention to Rio Tinto's leadership in respecting the rights of traditional people and its foundation membership of the Kimberley Process. Striking in Mackenzie's slides was Rio Tinto's net investment in developing the Murowa site and the size of the monetary benefits to Zimbabwe in wages paid, payments to the state-owned Minerals Marketing Corporation of Zimbabwe (MMCZ), withholding taxes, corporate taxes, royalties, dividends and payments to local suppliers. Mackenzie did not neglect to describe Rio Tinto's more than 50 years of financial and social investment in Zimbabwe. He also emphasized Rio Tinto's endorsement of broad-based economic empowerment and local partnerships in its South African operations, while also advocating for risk protection for local investors.

U.S.-Friendly Companies Wave the Flag at Mini-Trade Fair

19. (SBU) Despite strong anti-business/anti-U.S. rhetoric in the state-owned press and government circles in the months ahead of the event, 26 companies exhibited at the concurrently held mini-trade fair. The exhibitors represented a range of U.S. or U.S.-affiliated companies (Cargill, Chevron, Schweppes, Ernst & Young, Deloitte, Western Union, Pioneer Seed, among others), companies with significant U.S. investment or shareholding (Imara Asset Management, Murowa Diamonds), and also several small or U.S.-friendly local companies (PSI condom distributor, Econet, The Independent local newspaper, several electronics distributors). Except for the aggressive young mobile telephone company Econet, owned by Zimbabwe exile Strive Masiyiwa, which offered free GPRS service to all delegates, none of the companies appeared to use the forum as an

opportunity to win new business; their intent for the most part was to show solidarity with the vision of the American Business Association of Zimbabwe: "to promote optimum conditions for business to make maximum contributions to economic growth in Zimbabwe."

But Others - Intimidated

¶10. (SBU) Dishearteningly, PricewaterhouseCoopers (PWC), which was the primary sponsor of last year's forum, and U.S. tobacco giant AllianceOne, explicitly requested no public recognition of any sort for their financial support of the event. Similarly, numerous ABAZ members and other companies with U.S. interests told the organizers that they declined even the lowest level of sponsorship out of fear of recrimination by government. The Independent was only able to secure two advertisers for its supplement on the forum,

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but Group Chief Executive Officer Raphael Khumalo, who attended the forum, told econoff on October 26 that he had no regrets about sponsoring the event and looked forward to publishing excerpts of the proceedings in the weekly newspaper. PWC senior partner Tinashe Rwodzi told econoff on November 7 that in reviewing the event, which he attended, PWC decided it had erred in not lending greater public support.

A Multitude of Challenges in a Strained Business Climate

¶11. (U) About 220 delegates, including CEOs, managing directors and finance directors of major Zimbabwean companies and financial institutions, attended the forum and a gala closing cocktail reception hosted by ABAZ at the Ambassador's residence. Unfortunately, the Forum occurred the morning after an unscheduled Mid-Year Monetary Policy Statement by Reserve Bank of Zimbabwe Governor Gono (Ref B), which probably accounted for the especially high number of pre-registered delegates) 70 (for whom catering had been ordered)) who did not attend the forum. Apart from Deputy Minister of Agriculture David Chapfika, no high-level GOZ officials attended although ABAZ extended complimentary invitations to two dozen GOZ ministers, deputies and permanent secretaries.

¶12. (SBU) Despite strong financial sponsorship by major companies and BFIF (Ref A), the Just Business forum closed its books US\$2,500 in the red. The loss was primarily due to two factors: no-shows of pre-registered delegates (ABAZ has not been able to collect the registration fee from these registrants); and the sharp depreciation in value of sponsorship money during planning. The Zimbabwe dollar depreciated 78 percent on the parallel market from July 1 to October 1, unbalancing the budget which included unavoidable foreign currency denominated expenses.

Action Request

¶13. (SBU) Since last year's event, ABAZ has approved a constitution, hired a professional secretariat and begun to collect modest dues. However, the Association has not yet built up reserves that enable it to meet a financial shortfall. In support of the Association's role as a catalyst in convincing the Zimbabwean business community to pressure the GOZ for reform, and in light of the "Just Business" track record under extremely taxing circumstances, post requests US\$2,500 from FY08 BFIF funds to pay the outstanding balance.

Next steps

¶14. (SBU) ABAZ took a leap forward in establishing its identity as a business organization at the forefront of public discussion on economic reform. It also strengthened the well-chosen "Just Business" brand and began to institutionalize the "Just Business" private sector economic forum as an annual business event in Zimbabwe. Delegates commended the substance of the presentations and the superb networking opportunity. Looking ahead, ABAZ plans to circulate the forum proceedings widely to delegates,

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interested parties and GOZ officials, and place excerpts of the presentations in the press.

¶15. (SBU) Emboldened by positive feedback, ABAZ is also reaching out to its members in the financial and mining sectors to sponsor a series of workshops on South Africa's experience with black economic empowerment. As long as President Mugabe has not signed the Indigenization and Economic Empowerment Bill (Ref D) into law and parliament has not passed enabling legislation, ABAZ sees value in focusing public attention on the more investor-friendly black empowerment policies of South Africa as an indigenization alternative. The Association is also riding the momentum of a successful event by shoring up its numbers and its financial strength in a new membership drive.

Comment

¶16. (SBU) As democratic space shrinks in Zimbabwe, we believe that business organizations such as ABAZ and fora like "Just Business" have a significant role to play in bringing pro-reform pressure to bear on the GOZ and planting ideas about the shape of the post-Mugabe future in Zimbabwe. Clearly, the deteriorating economic and business climate made it harder this year for an association that starts with "the A word" to win the necessary sponsorship and pack a conference hall. In the planning phase, during the worst weeks of the price taskforce crackdown, it was also a struggle for ABAZ to convince prominent international speakers to travel to Zimbabwe to describe other troubled economies, embrace of economic reform. But the young business association, not intimidated, is tenaciously developing its voice, forging ahead, growing its membership, and leaving a footprint in reform minded circles. The US\$10,500 BFIF grant was money well spent and we hope that EB/CBA will give our request for top-up funding to cover the financial shortfall generous consideration.

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